



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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March 6, 2003

New Report Indicates Business Community Still Concerned About Budget Deficits

Dear Democratic Colleague,

Yesterday, the Committee for Economic Development (CED) — a nonpartisan organization of business leaders and university presidents that has commanded wide respect for more than 60 years — issued a report titled *Exploding Deficits, Declining Growth: The Federal Budget and the Aging of America*. It directly challenges the Bush Administration's key contentions about the re-emergence of chronic budget deficits. Contemporaneous with the report's release, CED and the Concord Coalition — one of the most consistent bipartisan voices for fiscal discipline — issued a press statement specifically "to warn the nation that a fiscal crisis threatens our future standard of living."

The CED report disputes both the Administration's contention that deficits do not matter much and that the best solution to budget deficits is more large tax cuts. While the OMB Director has admonished the Congress "not to hyperventilate" about a future of chronic deficits, the CED and Concord Coalition press release warns:

"Deficits do matter. They lower future economic growth by reducing the level of national savings that can be devoted to productive investments. They raise interest rates. They raise interest payments on the national debt. They reduce the fiscal flexibility to deal with unexpected developments. If we do not take action now to bring burgeoning deficits under control, we will create the first generation of Americans less well off than their predecessors."

And despite repeated claims by the President and Treasury Secretary that only economic growth can close the deficit and only Republican tax cuts create economic growth, CED argues that "the majority of the [budget] collapse can be directly linked to policy decisions."

Unfortunately, budget deficits will be even worse than the official projections that prompted the warning from CED and the Concord Coalition. In the first four months of FY 2003, revenues to the government have fallen 8.1 percent from the same period a year earlier.

This seriously calls into question the Administration's assumption that revenues would grow this fiscal year in the absence of any new policies. Even the Republican staff of the House Budget Committee is reported to have acknowledged that this year's deficit will exceed the \$304 billion record predicted by the President's budget just four weeks ago. In the longer term, official budget projections omit so many expensive items — like the cost of invading and occupying Iraq — that they seriously understate the enduring fiscal problem with which Republicans have saddled the country.

The attached article by David Broder of the *Washington Post* summarizes the CED report well, and those interested in accessing the full report should visit the CED website www.ced.org. The attached joint press release from the CED and the Concord Coalition outlines the grave concerns that these two respected organizations have about the fiscal course Republicans have charted for the nation. Please consider seriously these warnings about the nation's perilous fiscal course.

Sincerely,

John M. Spratt, Jr.
Ranking Member



FOR IMMEDIATE RELEASE

March 5, 2003

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**Groups Issue Warning on Deficits
CED and Concord Coalition Say Fiscal Crisis Will Deepen Without
Long-Term Budget Planning**

WASHINGTON, DC - March 5, 2003 The Committee for Economic Development (CED) and the Concord Coalition today held a press conference and released a joint statement on the federal budget and the nation's economic future. The statement says, in part:

"The Concord Coalition and CED have come together today to warn the nation that a fiscal crisis threatens our future standard of living, and to challenge Washington policymakers to make the hard choices that are necessary to prevent this crisis.

"Deficits are back for 'as far as the eye can see.' This, alone, is a serious development. Of more concern, however, is that support for the long-term balanced budget goal appears to be weakening. There are substantial long-term risks to this development. Temporary deficits do not pose a threat to the economy. Permanent deficits do — particularly with the enormous cost of the baby boomers' retirement benefits beginning in 2008, at the end of the 5-year budget window.

"Official baseline projections of the federal budget deficit provide a deceptive picture of the future. They fail to incorporate pending decisions, such as making tax cuts permanent or providing prescription drugs. They do not anticipate an imminent war and subsequent reconstruction in Iraq. They almost certainly understate the costs of improving homeland security. They ignore the inevitable reform of the alternative minimum tax, which will apply to some 40 million households within 10 years — up from 2 million today. Perhaps most importantly, they fail to account for the aging of the baby boom generation, and the extraordinary demands this will place on our budget, our health care system, and our society.

"Deficits do matter. They lower future economic growth by reducing the level of national savings that can be devoted to productive investments. They raise interest rates. They raise interest payments on the national debt. They reduce the fiscal flexibility to deal with unexpected developments. If we do not take action now to bring burgeoning deficits under control, we will create the first generation of Americans less well off than their predecessors.

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“Bringing the deficit back under control will not be easy. But the longer we wait to take action, the more difficult our choices become. Priorities must be set and trade-offs must be made. This should be done within the context of a long-term framework. Moreover, we can only bring about long-term fiscal sustainability by taking action on every front — including Social Security and Medicare reform; controlling the growth of appropriations; making investments in future economic growth our highest priority; pursuing the most efficient means to raise added revenue — and by avoiding policies that make the long-term outlook even worse. In that regard, any action we may take now to stimulate growth in the short term must be balanced by a credible commitment to future actions that bring us back to a balanced budget.” (the full statement is available at www.concordcoalition.org, or www.ced.org)

The statement was released at a joint CED/Concord Coalition press conference at the National Press Club in Washington, DC. The Concord Coalition President, and former U.S. Secretary of Commerce Peter G. Peterson represented the Concord Coalition. Josh S. Weston, CED Trustee, and former CEO of Automatic Data Processing, Inc. represented CED.

CED also released a study of the nation’s long-term fiscal crisis entitled, ***Exploding Deficits, Declining Growth: The Federal Budget and the Aging of America***. The report urges the Administration and Congress to “wage war on many fronts” against our nation’s deteriorating fiscal situation and set aside any effort to stimulate the economy through tax reductions at this time (see related press release “CED Urges Long-Term Budget Plan” – March 5, 2003, (both the report and a summary press release are available at www.ced.org).

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CED is a non-profit, non-partisan organization of more than 200 business leaders and university presidents. Since 1942, its research and policy programs have addressed many of the nations most pressing economic and social issues, including education reform, workforce competitiveness, campaign finance, health care, and global trade and finance. CED promotes policies to produce increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all. Contact CED at 2000 L Street, NW, Suite 700, Washington, DC, 20036. (202) 296-5860. www.ced.org

The Concord Coalition is a nonpartisan, grass roots organization dedicated to balanced federal budgets and generationally responsible fiscal policy. Former U.S. Senators Warren Rudman (R-NH) and Bob Kerrey (D-NE) serve as Concord’s co-chairs and former Secretary of Commerce Peter Peterson serves as president. Contact the Concord Coalition 1011 Arlington Blvd., Suite 300 Arlington, VA 22209 703-894-6222 (Fax) 703-894-6231. www.concordcoalition.org

washingtonpost.com

The CEOs' Dim View of Deficits

By David S. Broder

Wednesday, March 5, 2003; Page A21

From the heart of the business establishment comes a statement criticizing and rejecting the Bush tax cuts -- a stunning repudiation of the president's fundamental economic strategy delivered by the very corporate leaders who make the investment decisions on which recovery and growth turn.

Along with the criticism of the administration plan leveled last month by Federal Reserve Board Chairman Alan Greenspan, the report being issued today by the Committee for Economic Development, a blue-ribbon organization of corporate CEOs and civic leaders, is a warning that President Bush's policies risk long-term damage to Americans' prosperity and the government's fiscal stability.

While administration officials defend the deficits in store for this year and next as small by historical standards and temporary, the committee says that more realistic calculations show that over the next decade we can expect "annual deficits of \$300-\$400 billion, increasing as far as the eye can see."

Those estimates do not take into account the new tax cuts proposed by Bush in January and now beginning to make their way through the House of Representatives. "All told, the new budget proposals, if enacted, would raise the 10-year deficit by about \$2.7 trillion and annual deficits 10 years from now by about \$500 billion," the report says. And none of this, by the way, factors in the costs of a possible war with Iraq and its aftermath.

Deficits of this scale, over that many years, would spell economic peril at any time, the business executives say, because they reduce the pool of national savings, diminish needed investments and make us more dependent on foreign creditors.

But they are particularly dangerous at this moment, because in only five years, starting in 2008, the vanguard of the baby boomers will reach early retirement age and the demands on Social Security, Medicare and private health and retirement systems will rise dramatically.

The workforce is likely to grow barely at all in subsequent decades, thanks to continuing low birthrates, which means that overall economic growth will be limited. Meanwhile, lengthening life expectancy and the sheer number of boomers will cause retirement and health care costs to explode.

"Staying on our present track, spending for Social Security, Medicare and Medicaid skyrockets, while revenues fail to keep pace. The federal government deficit would balloon," weakening an already poor savings rate, and "by the 2020s, per-capita income growth would have fallen by more than half, and by 2040 the model predicts growth rates very nearly zero. . . . Perhaps for the first time in this country's history, most Americans could no longer expect their children and grandchildren to have higher living standards than their own."

The hardheaded executives dismiss as unrealistic any hope that the United States can simply "grow its way out of" the interlinked challenges of dangerous deficits and rising demands from its aging population.

Given the scale of the challenge, no single fix -- whether on the spending or revenue side -- will be sufficient. The policy recommendations embrace reform of Social Security and Medicare, careful scrutiny of Pentagon and homeland defense priorities and provision for expanded investment in education, research and

infrastructure -- the building blocks of future growth.

But the main point of the report is that "we must begin immediately in the 2004 budget to deal with the explosion of the long-term deficit."

That does not mean raising taxes or cutting spending now, while the economy is still struggling. But it does mean the government should not adopt "any short-term stimulus program that is not combined with a plan to restore longer-term budget balance. We are specifically concerned that the Jobs and Growth Package proposed by the administration, which would raise the cumulative 2004-2013 deficit by about \$920 billion (including interest) and raise the annual deficit 10 years from now by about \$100 billion, does not meet this test."

Over the decades ahead, considering the demands of an aging population, the threat of terrorism and the growing international obligations of the United States, the Committee for Economic Development says it is "extremely unlikely that the long-term budget problem can be solved without additional revenues. We therefore urge the administration and Congress to forgo at this time any additional tax reductions," including any move to make permanent the tax cuts passed in the make-believe atmosphere of projected budget surpluses in 2001.

It is a sobering message and, considering the source, not one to be ignored.

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